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UNCLAS SECTION 01 OF 04 BRASILIA 001193

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DOE FOR GWARD/SLADISLAW  
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USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D  
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE  
STATE PASS EXIM FOR NATALIE WEISS, COCONNER  
STATE PASS USTDA FOR AMCKINNEY  
TREASURY FOR OASIA:DDOUGLASS  
AID/W FOR LAC/AA

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SUBJECT: COMMERCE SECRETARY GUTIERREZ MEETS WITH BRAZILIAN  
POLICYMAKERS

11. (SBU) Summary. After Secretary Gutierrez's June 5-6 discussions in Rio de Janeiro at the Association of American Chambers of Commerce of Latin America (AACLA) annual meeting and the bilateral U.S.-Brazil Commercial Dialogue (septels), he traveled to Brasilia for sessions with government policymakers on June 7. Inter alia, OPIC President Robert Mosbacher Jr., USDOC A/S David Bohigian, State DAS Patrick Duddy, US Patent and Trademark Office Deputy Director Steve Pinkos, USDOC Office Director for Latin America John Andersen, and the Charge d'Affaires accompanied the Secretary on his calls in Brasilia. In his meetings with Lula Chief of Staff Dilma Rousseff, Vice-Minister of External Relations Samuel Pinheiro Guimaraes, and Justice Minister Marcio Thomaz Bastos, the Secretary discussed themes such as the need to reinvigorate Brazil-U.S. two-way trade, the threat to Occidental Petroleum's interests in Ecuador, the situation in Bolivia, peacekeeping in Haiti, Venezuela, American industry's desire to help Brazil prepare for the 2007 Pan-American Games, ethanol, GSP renewal, and protection of intellectual property rights.

12. (SBU) Meanwhile, Brazilian Ambassador to the U.S. Abdenur requested that the USG upgrade Brazil from its current Special 301 Priority Watch List status and maintain Brazil's GSP eligibility when Congress renews that program. Finally, in a separate session with resident Latin American Ambassadors, the Secretary reiterated the President's commitment to promoting democracy and social justice within the hemisphere. End Summary.

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13. (SBU) In a friendly 40 minute meeting with Lula Chief of Staff Dilma Rousseff, the Secretary underscored the USG's desire to deepen trade relations with Brazil. The goal of the bilateral Commercial Dialogue inaugurated in Rio de Janeiro the day before, he explained, was to help both U.S. and Brazilian business take better advantage of existing commercial opportunities. Both Rousseff and the Secretary agreed on the need for a positive result in the ongoing WTO Doha Round negotiations, with Rousseff emphasizing the particular importance to Brazil of a breakthrough on agriculture.

14. (SBU) On energy issues, the Secretary observed that in the wake of the Ecuadorian government's seizure of its assets, the American company Occidental Petroleum faces a difficult situation in that country. He stated that he hoped that the Brazilian government and industry did not act in a way that divided our two nations. Rousseff replied that while the Ecuadorians contemplated that a state-run petroleum company (like Brazil's Petrobras) might be recruited to develop Occidental's field, neither the GOB nor Petrobras had any such intent to do so. Rousseff noted that while it would continue to operate its other assets in Ecuador, Petrobras (a respected player on the international scene) had no interest in usurping Occidental's position. Should the GOB's position on this issue change in any way, she added, Petrobras would consult first with Occidental Petroleum to protect that company's interests. Finally, in response to the Secretary's offer as to whether the USG could help regarding the threat to Petrobras assets in Bolivia, Rousseff stated that although difficult negotiations were still ahead the situation in Bolivia appeared to have stabilized.

15. (SBU) OPIC President Mosbacher thanked Rousseff for the positive

BRASILIA 00001193 002 OF 004

role she played in resolving the investment dispute between Petrobras and El Paso regarding the Macae thermoelectric plant. Rousseff acknowledged the importance of attracting continued foreign direct investment to Brazil. Switching gears, Mosbacher outlined OPIC's plans to increase its support to overseas financial institutions which provide residential mortgage lending. Rousseff stated that strengthening access to housing was one of the GOB's principal priorities and said that she would encourage Demian Fiocca, the head of Brazil's National Development Bank (BNDES), to meet with Mosbacher during Fiocca's trip to Washington the week of June 12. (Note: this meeting subsequently occurred on Monday, June 12.)

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Vice-Foreign Minister Guimaraes  
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16. (SBU) Accompanied by Ministry U/S for Political Affairs Antonio Patriota, Acting U/S for Economic Affairs Antonino Porto e Santos, and the Ministry's aides for North American Affairs and Intellectual Property rights, Guimaraes welcomed the Gutierrez delegation. The Secretary began by explaining that the Commercial Dialogue sprang

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from the desire to capitalize on the positive report between the President and Lula, adding that both the Secretary and Trade Minister Furlan were pushing for tangible results in the short-term.

Guimaraes (who is not noted for his pro-American stances) stated that Lula values his excellent relationship with President Bush, and that our two countries enjoy an excellent dialogue, notwithstanding our differences.

17. (SBU) Both Guimaraes and the Secretary agreed on the importance of coming to an agreement within the Doha Round on agricultural subsidies, although the Secretary pointed out that whatever accord reached would have to contain gains on NAMA and services if it were to pass muster with the Administration and the U.S. Congress. Ambassador Abdenur stated that Brazil was worried about statements made by influential members of Congress to the effect that pending legislation reauthorizing GSP benefits might not include Brazil within that program. Abdenur noted that such a move would

negatively affect both the bilateral relationship and the image of the U.S. in Brazil. The Secretary replied that within the U.S. Congress, some had indeed begun to question whether Brazil should continue to receive GSP but that debate on this issue was in a very preliminary stage.

18. (SBU) The discussion on regional issues touched upon Haiti, Bolivia, Venezuela, and Ecuador. The Secretary thanked Brazil for the leadership it had shown on peacekeeping in Haiti and stated that with respect to Bolivia, friends should help friends wherever possible. Guimaraes said that Brazil's efforts on Bolivia were proving effective as that issue was disappearing from the local press. He observed that Brazil was not without leverage on Bolivia as from 50,000 to 70,000 Bolivians lived in Brazil (versus 2,000 to 10,000 Brazilians in Bolivia), and gas represented a mere 4% of Brazil national energy matrix (although 50% of that amount came from Bolivia). In the context of comments on democratization within the region, the Secretary noted that one country - i.e., Venezuela - should not divide us. (Guimaraes, however, appeared to take this as a reference to Bolivia.) Finally, the Secretary reiterated the points he made to Chief of Staff Rouseff about protecting Occidental Petroleum in Ecuador. Guimaraes' response was similar to

BRASILIA 00001193 003 OF 004

that of Rouseff - i.e., that Petrobras would not usurp Occidental's position.

19. (SBU) On the subject of ethanol, the Secretary stated that in his meetings with Minister Furlan in Rio de Janeiro, he had urged Brazil to attend a scheduled June 26-27 IDB meeting in Trinidad and Tobago on ethanol-related issues. Discussions at the ICE talks demonstrated that the U.S. and Brazil might be able to usefully engage on ethanol at the technical level, he said. In closing, Guimaraes stated that at the annual 3+1 (Brazil, Argentina, Paraguay + U.S.) talks on counter-terrorism all sides consistently agreed that there was no evidence that terrorists had any footprint in Brazil. Yet, he complained, in public remarks USG officials sometimes stated otherwise, without offering any evidence to back their claims up. Show us the names and the evidence, he declared, and Brazil will take follow up action. Charge explained that in the area of terrorist financing, often it was a question of the ultimate destination of funds that were flowing out of the tri-border region and the adjacent Sao Paulo area.

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Justice Minister Bastos  
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110. (SBU) Bastos opened the meeting by noting the progress that Brazil has made on copyright piracy from late 2004 to the present. He stated that the government had put in place a National Anti-piracy Council which was coordinating, in conjunction with Brazilian law enforcement, tax, and customs authorities, the country-wide campaign to stamp out piracy. Apprehensions of pirate goods had increased dramatically, he continued, particularly along the infamous tri-border (Brazil, Paraguay, and Argentina) area.

111. (SBU) CNCP Executive Secretary Marcio Goncalves (a Ministry of Justice employee) added that the positive results the Council had achieved would help reduce organized crime as the trade in pirate goods had strong links to criminal elements. Given the danger posed to the public by items such as counterfeit medical devices, auto parts, and other safety-related products, he stated, the GOB's crackdown had helped increase public security. Finally, Goncalves stated that in addition to its law enforcement efforts, the GOB had worked hard to educate the public about the human cost of piracy. He hoped that affected industry would work more vigorously to do the same.

112. (SBU) Secretary Gutierrez expressed his appreciation for the GOB's efforts and noted that through ongoing dialogue with USG law enforcement agencies the United States was being supportive. USPTO Deputy Director Pinkos outlined his agency's plans to assist its Brazilian counterpart through training and technical assistance. Thereafter, the Brazilian Ambassador to the U.S., Roberto Abdenur, asked that the USG do what it could to upgrade the Brazilian

government from its current Priority Watch List status.

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OPIC's Mosbacher Discusses Housing Finance  
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¶13. (SBU) Finally, in separate June 7 meetings, OPIC President Mosbacher Jr. discussed prospects for development of Brazil's housing finance market with Finance Ministry Economic Policy

BRASILIA 00001193 004 OF 004

Secretary Sergio de Almeida and officials of Caixa Economica Federal

SIPDIS

(CEF), the parastatal bank that administers a fund dedicated to financing housing for low income borrowers. While Brazil still has a significant housing deficit, Almeida noted that the private mortgage market, aided by reforms of the legal framework, was taking off. A secondary market also was developing, with over Reals 7 billion (USD 3.2 billion) in mortgage-backed securities issued. While construction and mortgage lending are booming, builders and banks are targeting upper and middle income consumers given the greater profitability of this market segment. The CEF officials explained their bank uses a fund financed by payroll taxes to finance low income housing but nevertheless has trouble reaching the poorest. Moreover, its resources are modest in comparison to the size of the housing deficit, which is concentrated among the poor.

¶14. (SBU) Mosbacher advocated for streamlined licensing and permitting requirements for housing projects. Such measures, he argued, could help niche builders turn a profit in lower-income housing projects. The problem of licensing that many builders have noted is exacerbated by the larger scale necessary for builders to achieve profitability on low-margin low-cost housing projects. There are also new cost-saving technologies that can help, Mosbacher said. Almeida and the CEF officials expressed interest in the new technologies and in the approach to financing low-income housing taken in other countries; they welcomed the OPIC role in catalyzing U.S. private investment in these markets in Brazil.

¶15. (U) This cable was cleared by the Gutierrez delegation prior to transmission.

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